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INFO RUEHXC/ALL US CONSULATES IN MEXICO COLLECTIVE PRIORITY

RUEATRS/DEPT OF TREASURY WASHINGTON DC

RUCPDO/DEPT OF COMMERCE WASHINGTON DC

RHMFIIU/DEPT OF HOMELAND SECURITY WASHINGTON DC

RHMFIIU/DEPT OF JUSTICE WASHINGTON DC

RHMFIIU/HQ USNORTHCOM

RHMFIS/CDR USSOUTHCOM MIAMI FL

RHEHAAA/NSC WASHINGTON DC

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SENSITIVE, SIPDIS

STATE FOR EEB/TPP/BTA/GROUT

STATE FOR WHA/MEX/WOLFSON

STATE PASS TO USTR FOR MELLE/SHIGETOMI

STATE PASS TO COMMERCE FOR ITA/MAC/ONAFITA/WORD/OLSEN

STATE PASS TO DOT FOR TRAINI

E.O. 12958: N/A

TAGS: [ECON](#) [ETRD](#) [MX](#)

SUBJECT: RETALIATORY TARIFFS - MEXICO PULLS TRIGGER BUT AIMS WIDE

1.(SBU) SUMMARY: In response to the cancellation of the U.S.-Mexico Cross Border Trucking Demonstration Project, the Mexican Secretariat of Economy (SE) published in the March 18 Mexican Federal Register an announcement modifying the import tariffs on 89 U.S. agricultural and industrial products, effective March 19. In a March 18 meeting with ECONOFF and AGOFF, the SE Director General of International Trade Negotiations acknowledged that Mexico had indeed "pulled the trigger", but explained that the tariffs followed a calculated logic to effect a change in the U.S. position on the trucking program. He stressed that the list of affected products could be modified or stay in place until a satisfactory outcome is achieved, and that the ball is now in our court. END SUMMARY.

2.(SBU) On March 18, Mexico imposed retaliatory tariffs on 89 U.S. goods totaling about \$2.4 billion in exports from 40 states in response to the cancellation of the pilot trucking program. Only about 1.5 percent of U.S. exports to Mexico are affected by these new tariffs. Staple goods not covered by Mexican producers - including rice, corn, and wheat - were excluded from the tariff scheme, according to SE, to avoid inflationary repercussions. Among the goods affected, 53 are finished products, including shampoo, books, and jewelry; 36 are agricultural goods. New tariffs range from 10 percent on many goods Q including onions, pet food, and toilet paper Q to 45 percent on table grapes. Local media reports that based on 2008 import amounts, if maintained in 2009, duties could increase by approximately \$420 million.

3.(SBU) Following the announcement of the retaliatory tariffs, ECONOFF and AGOFF met with Juan Carlos Baker, SE's Director General of International Trade Negotiations to gain clarification of Mexico's latest step in this trade dispute. Baker was cordial as always, but equally frank in his assertion that Mexico had exhausted all options to induce the United States to honor its international obligations under NAFTA and implement the trucking provisions of this agreement. He said that the elimination of preferential tariffs on certain products was a calculated effort designed to evoke a change in the U.S. position and prompt the reestablishment of a trucking program. He assured us that no U.S. agricultural or industrial producer should consider itself "safe" if its product does not appear on the list. If the products in this announcement are not the right formula to elicit a satisfactory result, then the GOM will consider modifying or expanding the list of affected

products.

LIST COULD EXPAND; US COMPANIES COULD BE EXCLUDED FROM BIDS

4.(SBU) Baker said that although the announcement has been released, SE is still fighting domestic pressure from various sectors to include additional U.S. products. For many, this is an opportunity to secure protection for domestic producers from competitive U.S. manufacturers. This is not what this modification of import tariffs was intended to do, he said, and it is contrary to President Calderon's repeated calls for countries to cease their protectionist ways. However, the longer there is no progress, the harder it will be for SE to fend off this pressure. Baker also suggested that the suspension of benefits of equivalent effect, as provided in NAFTA Article 2019, is not limited to the elimination of preferential tariffs. If necessary, Mexico could consider not allowing, for example, U.S. companies to bid on a key infrastructure project.

MEXICO: INTEGRITY OF NAFTA IS ON THE LINE

5.(SBU) When asked about the possible nature of a new trucking program, Baker replied it was unclear as to what sort of program would be satisfactory. He said the recent announcement that President Obama had instructed USTR, DOT and State to work with Congress on a new trucking project is a gesture of goodwill that is appreciated, but insisted that

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the tariffs will stay in place until a mutually-satisfactory solution is found. He did acknowledge that these tariffs could be removed quickly should conditions warrant such an action.

6.(SBU) Taking a step back, Baker pointed out that the integrity of NAFTA is on the line, and that if U.S. noncompliance continues unabated, then there is nothing to stop the Mexican congress from passing legislation in violation of Mexico's international commitments under this or another agreement. He insisted that Mexico is being very responsible in its retaliatory steps and is doing so in accordance with the rules laid out in NAFTA. Baker dismissed media reports that a Mexican delegation was to travel to Washington to discuss this issue. There is no need, he said. It is now the responsibility of the United States to act.

7.(SBU) COMMENT: Baker concluded that we should note that Mexico has left its side of the trucking program open, signaling its support for North American economic integration and its optimism that this trade dispute will be resolved. The list of affected products includes such seasonal products as Christmas trees, strawberries, and pears Q items that are not flowing south at this time Q and excludes such "substantial trade" items as beef, pork, and corn syrup. Although Mexico has pulled the trigger, they view their retaliation as merely a grazing at this point. Officials here hope that a more robust and more permanent trucking project in the very near future will prevent a more deadly shot. END COMMENT.

BASSETT